

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Franklin	County Oakland
Fiscal Year End June 30, 2007	Opinion Date October 22, 2007	Date Audit Report Submitted to State December 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

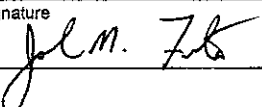
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

**YES NO** Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Janz & Knight, P.L.C.		Telephone Number 248-646-9666	
Street Address 300 East Long Lake Road, Suite 360		City Bloomfield Hills	State MI
		Zip 48304-2377	
Authorizing CPA Signature 	Printed Name John M. Foster		License Number 1101016537

VILLAGE OF FRANKLIN  
OAKLAND COUNTY, MICHIGAN  

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Report on Audit of Accounts

June 30, 2007  

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VILLAGE OF FRANKLIN, MICHIGAN

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# JANZ & KNIGHT, P.L.C.

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**50**  
YEARS  
1954-2004

MEMBERS  
AMERICAN INSTITUTE OF  
CERTIFIED PUBLIC ACCOUNTANTS  
MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

Members of the Council  
Village of Franklin  
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Franklin, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Franklin, Michigan, management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Franklin, Michigan, as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Franklin, Michigan basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Very truly yours,

*Janz & Knight, PLC*

Certified Public Accountants

Bloomfield Hills, Michigan

October 22, 2007

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Village of Franklin's (the Village) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the Village's financial activity, identify changes in the Village's financial position (its ability to address the next and subsequent years' challenges), identify significant variances from the approved budget, and identify individual fund issues or concerns.

Using this Annual Report

The Village's annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than government-wide financial statements.

Government-Wide Financial Statements

The government-wide financial statements consist of the Statement of Net Assets and Statement of Activities. They are designed to be corporate-like in that all governmental and business-type funds are consolidated into columns which add to a total for the primary government. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are also taken into account regardless of timing of cash being paid or received.

The Village as a Whole

Net Assets - The Village's combined net assets were \$8,835,206 at the close of the year ended June 30, 2007. This represents a decrease of \$32,196 or a 0.4% decrease from a year ago. As we look at governmental activities separately from the business-type activities, we can see that the governmental activities net assets increased \$37,021. The business-type activity had a decrease of \$69,217 in net assets. A large part of this decrease was from depreciation on the sewer system and interest paid on the sewer bonds payable.

The following table reflects the condensed Statement of Net Assets for the year ended June 30, 2007:

Table 1  
Statement of Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activity</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>						
Current and other assets	\$ 1,839,771	\$ 1,831,241	\$ 2,744,404	\$ 3,243,010	\$ 4,584,175	\$ 5,074,251
Capital assets	<u>6,251,361</u>	<u>6,508,256</u>	<u>7,518,478</u>	<u>7,545,021</u>	<u>13,769,839</u>	<u>14,053,277</u>
Total assets	<u>\$ 8,091,132</u>	<u>\$ 8,339,497</u>	<u>\$10,262,882</u>	<u>\$10,788,031</u>	<u>\$18,354,014</u>	<u>\$19,127,528</u>
<b>LIABILITIES AND NET ASSETS</b>						
Current and other liabilities	\$ 515,442	\$ 493,728	\$ 443,580	\$ 496,859	\$ 959,022	\$ 990,587
Long term debt outstanding	<u>4,688,500</u>	<u>4,995,600</u>	<u>3,871,286</u>	<u>4,273,939</u>	<u>8,559,786</u>	<u>9,269,539</u>
Total liabilities	\$ 5,203,942	\$ 5,489,328	\$ 4,314,866	\$ 4,770,798	\$ 9,518,808	\$10,260,126
Net assets:						
Invested in capital assets, net of related debt	1,371,361	1,358,256	3,244,538	2,878,785	4,615,899	4,237,041
Restricted	1,071,485	1,014,302	242,427	222,468	1,313,912	1,236,770
Unrestricted	<u>444,344</u>	<u>477,611</u>	<u>2,461,051</u>	<u>2,915,980</u>	<u>2,905,395</u>	<u>3,393,591</u>
Total net assets	<u>\$ 2,887,190</u>	<u>\$ 2,850,169</u>	<u>\$ 5,948,016</u>	<u>\$ 6,017,233</u>	<u>\$ 8,835,206</u>	<u>\$ 8,867,402</u>
Total liabilities and net assets	<u>\$ 8,091,132</u>	<u>\$ 8,339,497</u>	<u>\$10,262,882</u>	<u>\$10,788,031</u>	<u>\$18,354,014</u>	<u>\$19,127,528</u>

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2007

Unrestricted net assets are net assets that can be used to finance day to day operations. Restricted net assets of the Village totaled approximately \$1,314,000. These net assets have limitations on their use that were imposed by restrictions such as enabling legislation, grant or bond covenants. The investment in capital assets represents the Village's capital assets that provide services to citizens; accordingly, these assets are not available for future spending.

The following table shows the changes in net assets for the year ended June 30, 2007:

Table 2  
Changes in Net Assets

	Governmental Activities		Business-Type Activity		Total	
	2007	2006	2007	2006	2007	2006
Program revenue:						
Charges for services	\$ 1,004,282	\$ 1,160,432	\$ 376,674	\$ 368,474	\$1,380,956	\$1,528,906
Operating grants and contributions	255,640	240,799			255,640	240,799
Capital grants and contributions			194,487	381,423	194,487	381,423
General revenue:						
Property taxes	1,936,051	1,864,532			1,936,051	1,864,532
State shared revenue	208,141	172,741			208,141	172,741
Interest income	92,012	59,368	129,505	72,650	221,517	132,018
Franchise fees	74,995	67,290			74,995	67,290
Miscellaneous	21,242	20,177			21,242	20,177
Loss on sale of assets	(6,252)				(6,252)	
Total revenue	\$ 3,586,111	\$ 3,585,339	\$ 700,666	\$ 822,547	\$4,286,777	\$4,407,886
Program expenses:						
General government	532,477	469,542			532,477	469,542
Public safety	2,004,686	1,873,490			2,004,686	1,873,490
Public works	602,046	621,762			602,046	621,762
Community and economic development	32,013	50,302			32,013	50,302
Culture and recreation	143,879	137,841			143,879	137,841
Interest on long term debt	233,989	245,269			233,989	245,269
Sewer			769,883	790,346	769,883	790,346
Total program expenses	\$ 3,549,090	\$ 3,398,206	\$ 769,883	\$ 790,346	\$4,318,973	\$4,188,552
Increase (decrease) in net assets	\$ 37,021	\$ 187,133	\$ (69,217)	\$ 32,201	\$ (32,196)	\$ 219,334
Net assets - beginning of year	2,850,169	2,663,036	6,017,233	5,985,032	8,867,402	8,648,068
Net assets - end of year	\$ 2,887,190	\$ 2,850,169	\$ 5,948,016	\$ 6,017,233	\$8,835,206	\$8,867,402

As shown in the above table total revenues were approximately \$4.3 million, of which 45% was obtained from property taxes, 32% for fees charged for services and 5% for state shared revenues. Total expenses were approximately \$4.3 million, of which 46% was for public safety, 14% for public works and 18% for sewer.

Business Type Activities

The Village's business-type activities consists of the Pressure Sewer Fund. The Village provides sewer service to approximately 660 customers. During the year the Village constructed Sewer improvements of \$171,742.

The Village Funds

The analysis of the Village's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Village as a whole. The Village Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds for 2007 include the General Fund, Major Road Fund, Local Road Fund, Building Department and the Debt Service Fund.

The General Fund is the main operating fund of the Village. Total revenues for the year were approximately \$1,960,000. Of this revenue, 44% was from property taxes, 37% was from charges for services and 11% was from state shared revenues. Total expenditures for the year were approximately \$1,940,000. Of these expenditures, 68% was for public safety and 27% was for general government. At June 30, 2007 the unreserved fund balance of \$535,076 represented 28% of the total General Fund expenditures for the year.

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2007

The Village Funds (continued)

The Major Road Fund accounts for the repairs, maintenance and construction of all Village major streets. The fund balance of this fund at June 30, 2007 was \$424,124.

The Local Road Fund accounts for repairs, maintenance and construction of all Village local streets. The fund balance of this fund at June 30, 2007 was \$492,229.

The Building Department Fund accounts for the collection of building permits and fees and cost of inspections. The fund balance of this fund at June 30, 2007 was \$104.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. The fund balance of this fund at June 30, 2007 was \$91,349.

General Fund Budgetary Highlights

Over the course of the year, the Village Council amended the budget to take into account events during the year. Administrator expenditures were amended to reflect additional contract services expenses as a replacement to the Finance Clerk position. Other general services and administration activities expenditures were amended to reflect a decrease in general insurance premiums. Capital outlay expenditures were amended to reflect an auto purchased by the Administrator Department.

Village departments overall stayed below budget with the exception of the Police Department, Village Council and other financing uses, resulting in total expenditures and other financing uses of \$106,429 in excess of budget. In addition, actual revenue and other financing sources exceeded budgeted amounts by \$18,058.

Capital Asset and Debt Administration

At the end of June 30, 2007, the Village had \$13,769,839 invested in a broad range of capital assets (net of accumulated depreciation), including buildings, equipment, roads, and sewer lines.

Major expenditures for capital assets during the year included the following:

1. Sewer System improvements - \$171,742;
2. Police vehicle and accessories - \$19,917;
3. Village hall office renovations - \$16,882;
4. Administrator vehicle - \$16,860;
5. Storm drainage improvements - \$4,680;
6. Police equipment - \$4,527.

Long-Term Debt

The Village's total indebtedness at June 30, 2007 was \$9,153,939. No new debt was issued during the current fiscal year. The City maintains a "AA+" rating from Standard & Poor's. Additional information on the Village's long-term debt can be found in Note F.

Economic Factors and Next Year's Budgets and Rates

The Village's 2008 budget was prepared using various economic factors as follows:

Revenues:

Property tax rates for 2008 are as follows:

	2008 Mills Levied	2007 Mills Levied
Operations:		
General operations	2.7248	2.7254
Library	.4538	.4633
Fire	.8134	.9588
Rubbish	<u>.6229</u>	<u>.6000</u>
	4.6149	4.7475
Debt service:		
Road and drain	1.3205	1.2889
Police	<u>.1995</u>	<u>.1906</u>
	1.5200	1.4795
Total	<u>6.1349</u>	<u>6.2270</u>

VILLAGE OF FRANKLIN, MICHIGAN

June 30, 2007

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Revenues (continued)

Property tax revenues are expected to increase 5%. This is the result of new construction within the Village and property sales increasing the taxable value. State shared revenue, cable T.V. revenue, police protection services and interest income are all expected to reflect a reduction.

Expenditures

Payroll expenses are expected to decrease because of a retired police officer receiving approximately \$20,000 in unused vacation pay in 2007 that will not occur again in 2008, and because of the decision to outsource the finance clerk position towards the end of 2007. Contracted services expenses are expected to increase to reflect the outsourcing of the finance clerk position. Planning Commission expenses are expected to increase to reflect increased activity. Election expenses are expected to increase to reflect elections taking place in 2008. Administrator capital outlay expenses are expected to decrease because of the auto purchased in 2007. Village Hall capital outlay expenses are expected to increase to reflect additional projects occurring in 2008.

The 2008 General Fund budget expects a surplus of approximately \$28,000. The projected General Fund's fund balance at June 30, 2008 is approximately \$612,000 which represents approximately 31% of the General Fund expenditures for the year.

Request for Information

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have any questions or concerns about this report or need additional information, contact the Village Office, at the Village of Franklin, 32325 Franklin, Franklin, Michigan 48025-1199.



## VILLAGE OF FRANKLIN, MICHIGAN

## STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities	Business-type Activity	Total
<b>ASSETS</b>			
Cash and cash equivalents . . . . .	\$ 1,459,479	\$ 1,852,177	\$ 3,311,656
Receivables:			
Customers . . . . .		158,114	158,114
Special assessments . . . . .		52,000	52,000
Interest . . . . .		9,200	9,200
Other . . . . .	34,631	6,490	41,121
Agency funds . . . . .	224,612		224,612
Due from other governments . . . . .	113,041	112,389	225,430
Internal balances . . . . .	(41,095)	41,095	
Prepaid expenses . . . . .	17,768		17,768
Restricted assets - cash and cash equivalents . . . . .	31,335		31,335
Receivables - noncurrent portion . . . . .		512,939	512,939
Capital assets, net . . . . .	6,251,361	7,518,478	13,769,839
<b>Total assets . . . . .</b>	<b>\$ 8,091,132</b>	<b>\$ 10,262,882</b>	<b>\$ 18,354,014</b>
<b>LIABILITIES AND NET ASSETS</b>			
Liabilities:			
Accounts payable . . . . .	\$ 119,544	\$ 3,227	\$ 122,771
Accrued wages . . . . .	6,031		6,031
Accrued interest . . . . .	62,200	37,700	99,900
Due to other governments . . . . .	27,667		27,667
Noncurrent liabilities:			
Compensated absences . . . . .	108,500		108,500
Due within one year . . . . .	300,000	402,653	702,653
Due in more than one year . . . . .	4,580,000	3,871,286	8,451,286
<b>Total liabilities . . . . .</b>	<b>\$ 5,203,942</b>	<b>\$ 4,314,866</b>	<b>\$ 9,518,808</b>
Net assets:			
Invested in capital assets, net of related debt . . . . .	1,371,361	3,244,538	4,615,899
Restricted for:			
Major and local streets . . . . .	916,353		916,353
Debt service . . . . .	29,149		29,149
Police equipment . . . . .	31,335		31,335
Building code . . . . .	104		104
Waste water management . . . . .	11,390		11,390
Garbage and rubbish . . . . .	23,150		23,150
Fire services . . . . .	60,004		60,004
Sewer projects . . . . .		242,427	242,427
Unrestricted . . . . .	444,344	2,461,051	2,905,395
<b>Total net assets . . . . .</b>	<b>\$ 2,887,190</b>	<b>\$ 5,948,016</b>	<b>\$ 8,835,206</b>
<b>Total liabilities and net assets . . . . .</b>	<b>\$ 8,091,132</b>	<b>\$ 10,262,882</b>	<b>\$ 18,354,014</b>

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government . . . . .	\$ 532,477	\$	\$ 8,056	\$
Public safety . . . . .	2,004,686	1,004,282	2,078	
Public works . . . . .	602,046		245,506	
Community and economic development . . . . .	32,013			
Culture and recreation . . . . .	143,879			
Interest on long term debt . . . . .	233,989			
Total governmental activities . . . . .	\$ 3,549,090	\$ 1,004,282	\$ 255,640	\$
Business-type activity:				
Sewer . . . . .	769,883	376,674		194,487
Total primary government . . . . .	\$ 4,318,973	\$ 1,380,956	\$ 255,640	\$ 194,487

General revenues:

Property taxes . . . . .	
State shared revenues . . . . .	
Interest income . . . . .	
Franchise fees . . . . .	
Miscellaneous . . . . .	
Special item - sale of fixed assets . . . . .	

Total general revenues . . . . .

Changes in net assets . . . . .

Net assets - July 1, 2006 . . . . .

Net assets - June 30, 2007 . . . . .

The attached notes are an integral part of the financial statements.

Net (Expense) Revenue and  
Changes in Net Assets

Governmental Activities	Business-type Activity	Total
\$ (524,421)	\$	\$ (524,421)
(998,326)		(998,326)
(356,540)		(356,540)
(32,013)		(32,013)
(143,879)		(143,879)
(233,989)		(233,989)
\$ (2,289,168)	\$	\$ (2,289,168)
	(198,722)	(198,722)
\$ (2,289,168)	\$ (198,722)	\$ (2,487,890)
1,936,051		1,936,051
208,141		208,141
92,012	129,505	221,517
74,995		74,995
21,242		21,242
(6,252)		(6,252)
\$ 2,326,189	\$ 129,505	\$ 2,455,694
\$ 37,021	\$ (69,217)	\$ (32,196)
2,850,169	6,017,233	8,867,402
\$ 2,887,190	\$ 5,948,016	\$ 8,835,206

## VILLAGE OF FRANKLIN, MICHIGAN

BALANCE SHEET  
GOVERNMENTAL FUNDS

June 30, 2007

	General	Major Street	Local Street
<b>ASSETS</b>			
Cash and cash equivalents . . . . .	\$ 363,802	\$ 423,648	\$ 468,505
Receivables:			
Other . . . . .	22,735		180
Due from other funds . . . . .	137,092		14,466
Due from other governments . . . . .	77,795	21,169	14,077
Prepaid expenses . . . . .	17,768		
Restricted cash . . . . .	31,335		
Total assets . . . . .	<u>\$ 650,527</u>	<u>\$ 444,817</u>	<u>\$ 497,228</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable . . . . .	\$ 60,317	\$ 5,743	\$ 4,515
Accrued wages . . . . .	6,031		
Due to other funds . . . . .		14,950	484
Due to other governments . . . . .			
Total liabilities . . . . .	<u>\$ 66,348</u>	<u>\$ 20,693</u>	<u>\$ 4,999</u>
Fund balances:			
Reserved for:			
Debt service . . . . .			
Other . . . . .	49,103		
Unreserved, reported in:			
General Fund . . . . .	535,076		
Special Revenue Funds . . . . .		424,124	492,229
Total fund balances . . . . .	<u>\$ 584,179</u>	<u>\$ 424,124</u>	<u>\$ 492,229</u>
Total liabilities and fund balances . . . . .	<u>\$ 650,527</u>	<u>\$ 444,817</u>	<u>\$ 497,228</u>

The attached notes are an integral part of the financial statements.

Building Department	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
\$ 87,001	\$ 70,723	\$ 45,800	\$ 1,459,479
10,781		935	34,631
	48,421	102,752	302,731
			113,041
			17,768
			31,335
<u>\$ 97,782</u>	<u>\$ 119,144</u>	<u>\$ 149,487</u>	<u>\$ 1,958,985</u>
\$ 21,953	\$	\$ 27,016	\$ 119,544
75,725	27,795	260	6,031
		27,667	119,214
			27,667
<u>\$ 97,678</u>	<u>\$ 27,795</u>	<u>\$ 54,943</u>	<u>\$ 272,456</u>
	91,349		91,349
			49,103
104		94,544	535,076
			1,011,001
<u>\$ 104</u>	<u>\$ 91,349</u>	<u>\$ 94,544</u>	<u>\$ 1,686,529</u>
<u>\$ 97,782</u>	<u>\$ 119,144</u>	<u>\$ 149,487</u>	<u>\$ 1,958,985</u>

VILLAGE OF FRANKLIN, MICHIGAN

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE  
TO NET ASSETS OF GOVERNMENTAL ACTIVITIES

June 30, 2007

Total governmental fund balances. . . . . \$ 1,686,529

Amounts reported for governmental activities in the  
statement of net assets are different because:

Capital assets used in governmental activities are not financial  
resources, and are not reported in the governmental funds:

Governmental capital assets	\$7,828,462	
Less accumulated depreciation	(1,577,101)	6,251,361

Long-term liabilities, including compensated absences, are not  
due and payable in the current period and are not reported in  
the funds including related accrued interest. . . . . (5,050,700)

Net assets of governmental activities . . . . . \$ 2,887,190

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2007

	General	Major Street	Local Street
Revenues:			
Property taxes . . . . .	\$ 859,105	\$	\$
Licenses and permits . . . . .	75,695		
Federal sources . . . . .	8,056	10,030	10,030
State sources . . . . .	210,219	128,933	95,588
Charges for services . . . . .	722,298		
Fines and forfeitures . . . . .	17,262		
Interest . . . . .	37,907	18,256	19,087
Other . . . . .	31,008	421	
Total revenues . . . . .	\$ 1,961,550	\$ 157,640	\$ 124,705
Expenditures:			
Current:			
General government . . . . .	517,498		
Public safety . . . . .	1,325,654		
Public works . . . . .		80,515	80,192
Community and economic development . . . . .	32,013		
Culture and recreation . . . . .			
Capital outlay . . . . .	60,490		
Debt service:			
Principal payments . . . . .			
Interest and service charges . . . . .			
Total expenditures . . . . .	\$ 1,935,655	\$ 80,515	\$ 80,192
Excess of revenues over (under) expenditures . . . . .	\$ 25,895	\$ 77,125	\$ 44,513
Other financing sources (uses):			
Operating transfers in . . . . .			32,233
Operating transfers out . . . . .	(66,000)	(32,233)	
Total other financing sources (uses) . . . . .	\$ (66,000)	\$ (32,233)	\$ 32,233
Excess of revenues and other sources over (under) expenditures and other uses . . . . .	\$ (40,105)	\$ 44,892	\$ 76,746
Fund balance - July 1, 2006 . . . . .	624,284	379,232	415,483
Fund balance - June 30, 2007 . . . . .	\$ 584,179	\$ 424,124	\$ 492,229

The attached notes are an integral part of the financial statements.

<u>Building Department</u>	<u>Debt Service</u>	<u>Non-Major Governmental Funds</u>	<u>Governmental Funds</u>
\$ 264,022	\$ 455,032	\$ 621,914 890	\$ 1,936,051 340,607 28,116 434,740 722,298 17,262 92,012
823	7,129	9,633 35	32,287
\$ 264,845	\$ 462,161	\$ 632,472	\$ 3,603,373
371,405		261,346 209,576 143,879	517,498 1,958,405 370,283 32,013 143,879 60,490
	270,000 237,289		270,000 237,289
\$ 371,405	\$ 507,289	\$ 614,801	\$ 3,589,857
\$ (106,560)	\$ (45,128)	\$ 17,671	\$ 13,516
66,000			98,233 (98,233)
\$ 66,000	\$	\$	\$
\$ (40,560)	\$ (45,128)	\$ 17,671	\$ 13,516
40,664	136,477	76,873	1,673,013
\$ 104	\$ 91,349	\$ 94,544	\$ 1,686,529



VILLAGE OF FRANKLIN, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2007

Net change in fund balances - total governmental fund. . . . . \$ 13,516

Amounts reported for governmental activities in the  
statement of activities are different because:

Governmental funds report capital outlays as expenditures;  
in the statement of activities, these costs are allocated  
over their estimated useful lives as depreciation:

Expenditures for capital assets	\$62,866	
Less current year depreciation	(302,499)	(239,633)

Governmental funds only report the disposal of assets to the  
extent proceeds are received from the sale. In the Statement of  
Activities, a gain or loss is reported for each disposal . . . . . (17,262)

Compensated absences are included as a liability in governmental  
activities . . . . . 7,100

Repayment of bond principal is an expenditure in the governmental  
funds, but not in the statement of activities (where it reduces  
long-term debt). . . . . 270,000

Accrued interest is recorded in the statement of activities. . . . . 3,300

Change in net assets of governmental activities. . . . . \$ 37,021

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF NET ASSETS  
 PROPRIETARY FUND TYPE - ENTERPRISE FUND

June 30, 2007

	Business-type Activity Pressure Sewer Fund
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents . . . . .	\$ 1,852,177
Receivables:	
Customers . . . . .	158,114
Special assessments . . . . .	52,000
Interest . . . . .	9,200
Others . . . . .	6,490
Due from other funds . . . . .	41,095
Due from other governments . . . . .	112,389
Total current assets . . . . .	\$ 2,231,465
Noncurrent assets:	
Receivables - special assessments . . . . .	512,939
Capital assets, net . . . . .	7,518,478
Total noncurrent assets . . . . .	\$ 8,031,417
Total assets . . . . .	\$ 10,262,882
<b>LIABILITIES AND NET ASSETS</b>	
Current liabilities:	
Accounts payable and other liabilities . . . . .	\$ 3,227
Accrued interest . . . . .	37,700
Current portion of long term debt . . . . .	402,653
Total current liabilities . . . . .	\$ 443,580
Noncurrent liabilities:	
Bonds payable . . . . .	3,871,286
Total liabilities . . . . .	\$ 4,314,866
Net assets:	
Invested in capital assets, net of related debt . . . . .	3,244,538
Restricted for:	
Improvements . . . . .	221,604
Operations . . . . .	20,823
Unrestricted . . . . .	2,461,051
Total net assets . . . . .	\$ 5,948,016
Total liabilities and net assets . . . . .	\$ 10,262,882

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
 PROPRIETARY FUND TYPE - ENTERPRISE FUND

For the Year Ended June 30, 2007

	Business-type Activity
	Pressure Sewer Fund
Operating revenue:	
Sewage disposal charges. . . . .	\$ 372,800
Penalties. . . . .	3,989
Miscellaneous. . . . .	(115)
Total operating revenue. . . . .	\$ 376,674
Operating expenses:	
Cost of sewage treatment . . . . .	196,818
Inspection costs . . . . .	84
General and administrative expense . . . . .	42,044
System maintenance . . . . .	10,926
Pump station maintenance . . . . .	132,040
Depreciation . . . . .	198,285
Professional fees. . . . .	1,812
Miscellaneous. . . . .	2,425
Total operating expenses . . . . .	\$ 584,434
Operating income (loss). . . . .	\$ (207,760)
Nonoperating revenues (expenses):	
Capital charges. . . . .	146,711
Interest income. . . . .	129,505
Reserve for improvements . . . . .	47,776
Interest expense . . . . .	(160,505)
Reserve for operations . . . . .	(8,532)
Miscellaneous. . . . .	(16,412)
Total nonoperating revenues (expenses) . . . . .	\$ 138,543
Change in net assets . . . . .	\$ (69,217)
Net assets - July 1, 2006. . . . .	6,017,233
Net assets - June 30, 2007 . . . . .	\$ 5,948,016

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND TYPE - ENTERPRISE FUND  
For the Year Ended June 30, 2007

	Business-type Activity Pressure Sewer Fund
Cash flows from operating activities:	
Receipts from customers . . . . .	\$ 342,233
Payments to suppliers . . . . .	(383,268)
Net cash provided (used) by operating activities . . . . .	\$ (41,035)
Cash flows from capital and related financing activities:	
Collection of customer assessments . . . . .	143,930
Reserve for improvements . . . . .	47,776
Purchase of property and equipment . . . . .	(171,741)
Principal paid on capital debt . . . . .	(392,297)
Interest paid on capital debt . . . . .	(162,405)
Reserve for operations . . . . .	(8,532)
Miscellaneous non-operating expenditures . . . . .	(16,412)
Net cash provided (used) by capital and related financing activities . . . . .	\$ (559,681)
Cash flows from investing activities:	
Interest income . . . . .	120,305
Net increase (decrease) in cash and cash equivalents . . . . .	\$ (480,411)
Cash and cash equivalents - July 1, 2006 . . . . .	2,332,588
Cash and cash equivalents - June 30, 2007 . . . . .	\$ 1,852,177

Reconciliation of operating income (loss) to net cash provide  
(used) by operating activities:

Operating income (loss) . . . . .	\$ (207,760)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Depreciation and amortization . . . . .	198,285
Changes in assets and liabilities:	
(Increase) decrease in receivables . . . . .	16,131
(Increase) decrease in due from other governments . . . . .	(50,572)
Increase (decrease) in accounts payable and other liabilities . . . . .	2,881
Net cash provided (used) by operating activities . . . . .	\$ (41,035)

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

STATEMENT OF ASSETS AND LIABILITIES  
AGENCY FUNDS

June 30, 2007

	Trust & Agency Fund	Tax Collection Fund	Total Fiduciary Funds
ASSETS			
Cash and cash equivalents . . . . .	\$ 249,751	\$ 256,646	\$ 506,397
Due from other funds. . . . .	8,300		8,300
Total assets. . . . .	<u>\$ 258,051</u>	<u>\$ 256,646</u>	<u>\$ 514,697</u>
LIABILITIES			
Due to other funds. . . . .	\$ 8,390	\$ 224,522	\$ 232,912
Due to other governments. . . . .		32,124	32,124
Deposits payable. . . . .	249,661		249,661
Total liabilities . . . . .	<u>\$ 258,051</u>	<u>\$ 256,646</u>	<u>\$ 514,697</u>

The attached notes are an integral part of the financial statements.

VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - Summary of Significant Accounting Policies:

The accounting policies of the Village of Franklin (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Franklin.

Reporting Entity

The Village of Franklin is governed by an elected seven-member Council. The accompanying financial statements present the Village and its component units, entities for which the Village is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual--that is, when they become both measurable and available to finance expenditures of the period. Property taxes, state-shared revenue, interest, reimbursement grants, and charges for services are considered to be susceptible to accrual and so have been recognized as revenue of the current period. All other revenue items are considered to be available only when cash is received by the government.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE A - Summary of Significant Accounting Policies (continued):

Governmental Funds:

The Village reports the following major governmental funds:

General Fund

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Road Fund

The Major Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "major roads" within the Village. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Local Road Fund

The Local Road Fund accounts for the construction, maintenance, and repairs of all streets classified as "local roads" within the Village. Financing is provided primarily by State-shared gas and weight taxes and local contributions. The fund is operated under the provisions of Michigan's Act 51 of the Public Acts of 1951, as amended.

Building Department Fund

The Building Department Fund is a special revenue fund used to account for the collection of building permits and fees and costs of inspections.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal and interest on the Village's general obligation debt. The Village annually levies ad valorem taxes restricted for the retirement of general obligation bonds. This fund reports all ad valorem taxes collected.

Additionally, the City reports the following fund types:

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Propriety Fund

The Village reports the following major proprietary fund:

Pressure Sewer Fund

The Pressure Sewer Fund accounts for the operation, maintenance and distribution of the sewage systems administered by Oakland County.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Pressure Sewer Fund relates to charges to customers for sales and services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE A - Summary of Significant Accounting Policies (continued):

Fiduciary Funds

Agency Funds

Agency Funds are used to account for assets held by the Village as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Property Taxes

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The 2006 taxable valuation of the Village, assessed as of December 31, 2005, totaled \$307,557,870, and is used for the July 1, 2006 tax bills; this resulted in property tax revenue as follows:

<u>Operations</u>	<u>Mills Levied</u>	<u>Property Taxes</u>
General operations	2.7254	\$838,221
Library	.4633	142,492
Fire	.9588	294,887
Rubbish	.6000	184,535
<u>Debt Service</u>		
Road and drain	1.2889	396,411
Police	.1906	58,621

Assets, Liabilities, and Net Assets or Equity

Cash and Investments

Deposits are carried at cost and consist of cash on hand, checking accounts, and investments in mutual funds.

For purposes of the Statement of Cash Flows, the Village considered cash deposits and certificates of deposits with a maturity of three months or less when purchased to be cash equivalents.

Interfund Receivables and Payables

In general, outstanding balances between funds are reported as "due to/from other funds" on the balance sheet. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Receivables

All trade and property tax receivables are considered fully collectible by the Village. No provision has been made in the financial statements for noncollection.

Prepaid Items

Certain payments to vendors reflect costs applicable to future years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain revenues of the enterprise funds require amounts to be set aside for debt service principal and interest, operations and maintenance, and improvements and replacement of the water system. These amounts have been classified as restricted assets.



VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE A - Summary of Significant Accounting Policies (continued):

Capital Assets

Capital assets, which include land, buildings, building improvements, vehicles, furniture, machinery and equipment and infrastructure are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Infrastructure assets are long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets.

Capital assets that are being depreciated are reported net of accumulated depreciation in the statement of net assets. Capital assets that are not being depreciated, such as land, are reported separately.

Capital assets are depreciated over their estimated useful lives. Depreciation expense is reported in the statement of activities by allocating the net cost over the estimated useful life of the assets.

Depreciation of all exhaustible fixed assets used by propriety fund types is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund type balance sheets. Depreciation has been provided over the estimated useful lives.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Land Improvements	10
Sewer System	50
Buildings and Improvements	10-50
Vehicles	6
Machinery and Equipment, Furniture	5-20
Roads	25
Storm Drainage	40

Compensated Absences (Sick and Vacation Leave)

Sick pay earned is recognized in the governmental financial statements when it is paid. The long-term portion of compensated absences related to governmental funds is a liability recorded in the Statement of Net Assets.

Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Statement of Net Assets. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds. For proprietary fund types, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount and net of any deferred charges on bond refundings. Issuance costs are reported as deferred charges.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance present tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE B - Stewardship, Compliance, and Accountability:

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. All annual appropriations lapse at year end. The Village's appropriation resolution is generally passed during the May preceding the year in which the planned expenditures relate. Subsequent amendments are made to avoid unfavorable variances from the original budget. Related resolutions are made to state the purpose and amount of the changes. The Village Clerk has the responsibility to enforce the budget. Unused appropriations do not carry forward to the next year.

The budget document presents information by fund, function, department and line items. The legal level (the level at which expenditures may not legally exceed appropriations) of budgetary control adopted by the board is at the department (activity) level.

The Village Council must approve budget amendments at the activity level and supplemental appropriations, which affect total fund expenditures. The Clerk can transfer appropriations between line items within a department or activity without governing body approval.

Supplemental appropriations were necessary during the year, which increased total expenditures.

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

P.A. 2 of 1968 as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated in budget resolutions of the governing body.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year, the Village of Franklin incurred expenditures in certain budgeted funds which were significantly in excess of the amounts appropriated, as follows:

Fund	Activity	Amended Budget	Actual Expenditures	Budget Variance
General	Village Council	49,675	62,544	12,869
General	Legal and related services	\$ 35,000	\$ 43,110	\$ 8,110
General	Public safety	1,275,778	1,325,654	49,876
General	Operating transfers out		66,000	66,000

NOTE C - Deposits and Investments:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated various banks for the deposit of Village funds. The treasurer keeps a list of approved banks. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds, securities, and other obligations of the United States in which principal and interest are fully guaranteed, certificates of deposit of a bank which is a member of the FDIC or a credit union which is insured by the National Credit Union Administration, commercial paper rated within the two highest classifications by not less than two standard rating services and which matures not more than 270 days after date of purchase (no more than 50 percent of the portfolio may be invested in commercial paper), commercial paper rated within the two highest classifications of United States government or federal agency obligation repurchase agreements, bankers' acceptances of United States banks, obligations of the State of Michigan that at the time of purchase are rated as investment

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE C - Deposits and Investments (continued):

grade by not less than standard rating service, mutual funds registered under the Investment Company Act of 1940, with authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools organized under the Surplus Funds Investment Pool Act or the Local Government Investment Pool Act, and other investments which are authorized for investment by the State Treasurer; repurchase agreements shall be negotiated only with dealers of financial institutions with whom the Village has negotiated a master repurchase agreement. Repurchase agreements must be signed by the village president, the village clerk, and the bank or dealer. The treasurer is prohibited from investing in derivatives, derivate-type instruments, or reverse repurchase agreements that may be allowed under state statute. The Village's deposits and investment policies are in accordance with statutory authority.

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had \$3,644,586 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Village does not have a policy for custodial credit risk. At year end, the Village had no investment securities that were uninsured and unregistered, held by the counterparty, or by its trust department or agent but not in the Village's name.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Village's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the Village was invested only in bank investment pools that are 2a-7 and money market accounts.

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Village has an investment policy that further limits its investment choices as detailed above. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Sweep Account	\$3,286,519	A1	Moody's

VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE D - Capital Assets:

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 211,717	\$	\$	\$ 211,717
Capital assets being depreciated:				
Roads	5,534,493			5,534,493
Storm drainage	597,552	4,680		602,232
Building and improvements	965,322	16,882		982,204
Land improvements	26,937			26,937
Machinery and equipment	185,755	2,911		188,666
Furniture and fixtures	132,691	1,616		134,307
Vehicles	198,321	36,777	87,192	147,906
Subtotal	\$ 7,641,071	\$ 62,866	\$ 87,192	\$ 7,616,745
Less accumulated depreciation for:				
Roads	834,460	221,379		1,055,839
Storm drainage	80,670	15,064		95,734
Building and improvements	92,363	22,809		115,172
Land improvements	12,642	2,694		15,336
Machinery and equipment	145,131	8,316		153,447
Furniture and fixtures	72,733	9,650		82,383
Vehicles	106,533	22,587	69,930	59,190
Subtotal	\$ 1,344,532	\$ 302,499	\$ 69,930	\$ 1,577,101
Net capital assets being depreciated	\$ 6,296,539	\$ (239,633)	\$ 17,262	\$ 6,039,644
Net capital assets	\$ 6,508,256	\$ (239,633)	\$ 17,262	\$ 6,251,361
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets being depreciated:				
Sewer system	\$ 9,388,588	\$ 171,742	\$	\$ 9,560,330
Less accumulated depreciation for:				
Sewer system	1,843,567	198,285		2,041,852
Net capital assets	\$ 7,545,021	\$ (26,543)	\$	\$ 7,518,478

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 13,422
Public safety	52,634
Public works	236,443
Total governmental activities	\$302,499
Business-type activities:	
Water and sewer	\$198,285

VILLAGE OF FRANKLIN, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE E - Interfund Receivables, Payables and Transfers:

The following are the interfund receivables at June 30, 2007:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Street Fund	\$ 484
	Local Street Fund	484
	Waste Water Fund	260
	Building Department Fund	50,257
	Trust and Agency Fund	8,390
	Tax Collection Fund	<u>77,217</u>
	Total General Fund	\$137,092
Special Revenue Funds:		
Local Street Fund	Major Street Fund	14,466
Fire Fund	Tax Collection Fund	79,153
Library Fund	Tax Collection Fund	8,518
Garbage and Rubbish Fund	Tax Collection Fund	11,213
Waste Water Fund	Building Department Fund	<u>3,868</u>
	Total Special Revenue Funds	\$117,218
Debt Service Fund	Tax Collection Fund	48,421
Enterprise Fund	Building Department Fund	13,300
	Debt Service Fund	<u>27,795</u>
	Total Enterprise Fund	\$ 41,095
Agency Fund:		
Trust and Agency Fund	Building Department Fund	<u>8,300</u>
	Total interfund receivable	<u>\$352,126</u>

These balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund Transfers

	<u>Major Street Fund</u>	<u>General Fund</u>	<u>Total</u>
Transfers In			
Local Street Fund	\$32,233	\$	\$32,233
Building Department Fund		<u>66,000</u>	<u>66,000</u>
Total	<u>\$32,233</u>	<u>\$66,000</u>	<u>\$98,233</u>

Transfers from the Major Road Fund to the Local Road Fund are allowable under Act 51.

NOTE F - Long-Term Debt:

The following is a summary of general long-term debt of the Village for the year ended June 30, 2007:

	<u>General Obligation</u>	<u>Compensated Absences</u>	<u>Total</u>
Balance at July 1, 2006	\$ 5,150,000	\$ 115,600	\$5,265,600
Principal retirements	(270,000)		(270,000)
(Decrease) in obligation for compensate absences		<u>(7,100)</u>	<u>(7,100)</u>
Balance at June 30, 2007	<u>\$ 4,880,000</u>	<u>\$ 108,500</u>	<u>\$4,988,500</u>

VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE F - Long-Term Debt (continued):

The following is a summary of long-term debt transactions of the Village's Enterprise Fund for the year ended June 30, 2007:

	General Obligation Bonds
Balance at July 1, 2006	\$4,666,236
Principal retirement	(392,297)
Balance at June 30, 2007	<u>\$4,273,939</u>

General Long-Term Debt - Bonds Payable:

On September 8, 1999 bonds in the amount of \$1,600,000 were sold for road and drainage improvements. The proceeds received from the sale of these bonds amounted to \$1,584,012. These bonds are part of the voter approved authorization for road and drainage improvements. Schedule of principal and interest payments is as follows:

Year	Due September 1			Due March 1	
	Principal	Interest	Total	Interest	
2007	\$ 100,000	\$ 27,795	\$ 127,795	\$	
2008	110,000	25,295	135,295	25,295	
2009	120,000	22,545	142,545	22,545	
2010	130,000	19,545	149,545	19,545	
2011	140,000	16,295	156,295	16,295	
2012	155,000	12,795	167,795	12,795	
2013	165,000	8,842	173,842	8,842	
2014	<u>180,000</u>	<u>4,635</u>	<u>184,635</u>	<u>4,635</u>	
	<u>\$1,100,000</u>	<u>\$ 137,747</u>	<u>\$1,237,747</u>	<u>\$ 109,952</u>	

The bonds bear interest at a rate of 4.2% to 5.1%.

On November 20, 1999 bonds in the amount of \$850,000 were sold for the construction of a police station. The proceeds received from the sale of these bonds amounted to \$839,375. These bonds are part of the voter approved authorization for police station construction. Schedule of principal and interest payments is as follows:

Year	Due October 1			Due April 1	
	Principal	Interest	Total	Interest	
2007	\$ 30,000	\$ 19,819	\$ 49,819	\$	
2008	30,000	19,031	49,031	19,031	
2009	35,000	18,244	53,244	18,244	
2010	40,000	17,325	57,325	17,325	
2011	45,000	16,275	61,275	16,275	
2012	45,000	15,082	60,082	15,082	
2013	50,000	13,867	63,867	13,867	
2014	55,000	12,492	67,492	12,492	
2015	65,000	10,966	75,966	10,966	
2016	70,000	9,146	79,146	9,146	
2017	75,000	7,169	82,169	7,169	
2018	85,000	5,031	90,031	5,031	
2019	<u>90,000</u>	<u>2,587</u>	<u>92,587</u>	<u>2,587</u>	
	<u>\$ 715,000</u>	<u>\$ 167,034</u>	<u>\$ 882,034</u>	<u>\$ 147,215</u>	

The bonds bear interest at a rate of 5.0% to 5.75%.

VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE F - Long-Term Debt (continued):

General Long-Term Debt - Bonds Payable (continued):

On April 11, 2001 bonds in the amount of \$2,000,000 were sold for local road improvements. The proceeds received from the sale of these bonds amounted to \$1,975,009. These bonds are part of the voter approved authorization for local road improvements. Schedule of principal and interest payments is as follows:

Year	Due October 1		Total	Due April 1	
	Principal	Interest		Interest	
2007	\$ 95,000	\$ 34,873	\$ 129,873	\$	
2008	110,000	32,830	142,830	32,830	
2009	125,000	30,465	155,465	30,465	
2010	150,000	27,778	177,778	27,778	
2011	175,000	24,553	199,553	24,553	
2012	195,000	20,790	215,790	20,790	
2013	225,000	16,500	241,500	16,500	
2014	250,000	11,550	261,550	11,550	
2015	275,000	6,050	281,050	6,050	
	<u>\$1,600,000</u>	<u>\$ 205,389</u>	<u>\$1,805,389</u>	<u>\$ 170,516</u>	

The bonds bear interest at a rate of 4.25% to 4.40%.

On May 29, 2002 bonds in the amount of \$1,700,000 were sold for local road improvements. The proceeds received from the sale of these bonds amounted to \$1,678,750. These bonds are part of the voter approved authorization for local road improvements. Schedule of principal and interest payments is as follows:

Year	Due October 1		Total	Due April 1	
	Principal	Interest		Interest	
2007	\$ 75,000	\$ 32,736	\$ 107,736	\$	
2008	75,000	31,424	106,424	31,424	
2009	80,000	30,018	110,018	30,018	
2010	80,000	28,417	108,417	28,417	
2011	80,000	26,778	106,778	26,778	
2012	90,000	25,077	115,077	25,077	
2013	90,000	23,098	113,098	23,098	
2014	95,000	21,072	116,072	21,072	
2015	100,000	18,888	118,888	18,888	
2016	350,000	16,537	366,537	16,537	
2017	350,000	8,313	358,313	8,313	
	<u>\$1,465,000</u>	<u>\$ 262,358</u>	<u>\$1,727,358</u>	<u>\$ 229,622</u>	

The bonds bear interest at a rate of 2.00% to 4.75%.

Compensated Absences:

Accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund incurring the liability. Unused vacation leave lapses at the end of an employee's anniversary date. In accordance with provisions of Statement of Financial Accounting Standards No. 43, "Accounting for Compensated Absences," no liability is recorded for nonvesting accumulating rights to receive sick pay benefits.

VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE F - Long-Term Debt (continued):

Enterprise Fund - Bonds Payable:

Schedule of semi-annual principal and interest payments due for the Evergreen-Farmington Sewage Disposal System Bonds - Permanent Meter and Interceptor Rehabilitation is as follows:

Year	Due April 1,			Due October 1,	
	Principal	Interest	Total	Interest	
2007	\$	\$	\$	\$	169
2008	2,653	169	2,822		117
2009	2,970	117	3,087		58
2010	3,316	58	3,374		
	<u>\$ 8,939</u>	<u>\$ 344</u>	<u>\$ 9,283</u>	<u>\$</u>	<u>344</u>

The bonds bear interest at a rate of 3.5% to 3.7%.

On May 26, 1994 bonds in the amount of \$3,850,000 were sold. These bonds are part of the voter approved authorization. As noted below there was a defeasance of \$2,850,000 of this debt during 2003.

On January 29, 2003, the Village issued \$2,950,000 in general obligation bonds with an average interest rate of 3.00% to advance refund \$2,850,000 of the outstanding sewer construction bond detailed above with an average interest rate of 5.66%. The net proceeds of \$2,912,437 (after receipt of \$36,230 in original issue premium and payment of \$73,793 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the sewer construction bond.

On March 1, 2003, the escrow agent paid \$2,907,000 (including a call premium of \$57,000) to retire the outstanding \$2,850,000 sewer construction bond. The remaining \$5,437 held by the escrow agent was transferred to the Debt Service Fund to cover other incidental issuance costs.

The Village advance refunded the sewer construction bond to reduce its total debt service payments over the next 11 years by \$291,290 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$247,965. Schedule of principal and interest payments are as follows:

Year	Due September 1			March 1	
	Principal	Interest	Total	Interest	
2007	\$ 265,000	\$ 34,416	\$ 299,416	\$	
2008	260,000	30,937	290,937	30,937	
2009	280,000	27,037	307,037	27,037	
2010	270,000	22,487	292,487	22,487	
2011	290,000	17,762	307,762	17,762	
2012	310,000	12,506	322,506	12,506	
2013	325,000	6,500	331,500	6,500	
	<u>\$2,000,000</u>	<u>\$ 151,645</u>	<u>\$2,151,645</u>	<u>\$</u>	<u>117,229</u>

The bonds bear interest at a rate of 2.00% to 4.00%.



VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE F - Long-Term Debt (continued):

Enterprise Fund - Bonds Payable:

On June 6, 1996 bonds in the amount of \$1,400,000 were sold for sewer construction. The proceeds received from the sale of these bonds amounted to \$1,382,500. These bonds are part of the \$6,000,000 voter approved authorization for sewer construction. As noted below, there was a defeasance of \$1,075,000 of this debt during 2005.

On February 9, 2005, the Village issued \$1,140,000 in general obligation bonds with an average interest rate of 2.925% to advance refund \$1,075,000 of the outstanding sewer construction bond detailed above with an average interest rate of 5.375%. The net proceeds of \$1,099,561 (after payment of \$40,439 in underwriting fees, insurance and other issuance costs) were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the sewer construction bond.

The Village advance refunded the sewer construction bond to reduce its total debt service payments over the next 10 years by approximately \$115,000 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$99,000. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2007	\$ 85,000	\$ 15,341	\$ 100,341	\$	
2008	85,000	14,172	99,172	14,172	
2009	90,000	13,003	103,003	13,003	
2010	90,000	11,709	101,709	11,709	
2011	95,000	10,359	105,359	10,359	
2012	105,000	8,934	113,934	8,934	
2013	125,000	7,254	132,254	7,254	
2014	150,000	5,145	155,145	5,145	
2015	140,000	2,520	142,520	2,520	
	<u>\$ 965,000</u>	<u>\$ 88,437</u>	<u>\$1,053,437</u>	<u>\$ 73,096</u>	

The bonds bear interest at a rate of 2.25% to 3.6%.

March 2, 1999 bonds in the amount of \$1,500,000 were sold for sewer construction. The proceeds received from the sale of these bonds amounted to \$1,481,250. These bonds are part of the \$6,000,000 voter approved authorization for sewer construction. Schedule of principal and interest payments are as follows:

Year	Due November 1			Due May 1	
	Principal	Interest	Total	Interest	
2007	\$ 50,000	\$ 28,684	\$ 78,684	\$	
2008	60,000	27,659	87,659	27,659	
2009	60,000	26,429	86,429	26,429	
2010	85,000	25,199	110,199	25,199	
2011	95,000	23,435	118,435	23,435	
2012	100,000	21,440	121,440	21,440	
2013	100,000	19,340	119,340	19,340	
2014	120,000	17,190	137,190	17,190	
2015	130,000	14,550	144,550	14,550	
2016	250,000	11,625	261,625	11,625	
2017	250,000	5,875	255,875	5,875	
	<u>\$1,300,000</u>	<u>\$ 221,426</u>	<u>\$1,521,426</u>	<u>\$ 192,742</u>	

The bonds bear interest at a rate of 4.1% to 4.7%.

## VILLAGE OF FRANKLIN, MICHIGAN

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

## NOTE F - Long-Term Debt (continued):

Annual Debt Requirement:

The annual requirements to amortize all debt outstanding, excluding compensated absences, as of June 30, 2007 are as follows:

<u>Fiscal Year</u>	<u>General Long-Term Debt</u>		<u>Enterprise Fund</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 300,000	\$ 223,803	\$ 402,653	\$ 151,547
2009	325,000	209,852	407,970	139,471
2010	360,000	194,337	433,316	125,980
2011	400,000	176,966	445,000	110,951
2012	440,000	157,645	480,000	94,436
2013	485,000	136,051	515,000	75,974
2014	530,000	112,056	550,000	55,429
2015	580,000	85,653	270,000	39,405
2016	440,000	61,587	270,000	28,695
2017	420,000	41,165	250,000	17,500
2018	425,000	20,513	250,000	5,875
2019	85,000	7,618		
2020	90,000	2,587		
	<u>\$4,880,000</u>	<u>\$1,429,833</u>	<u>\$4,273,939</u>	<u>\$ 845,263</u>

NOTE G - Restricted Assets:

The balance of the restricted asset account is as follows:

General Fund:	
Police equipment	<u>\$31,335</u>

NOTE H - Retirement Plans:Defined Contribution Plan:

The Village provides pension benefits to its administrator and police chief through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation with the Village Administrator, the Village contributes 8% of employee's gross earnings and employee contributes 5% of earnings. As established by negotiation with the Village Police Chief, the Village contributes 8% of employee's gross earnings and employee contributes 2% of earnings.

In accordance with these requirements, the Village contributed \$13,232 during the current year and the employee contributed \$5,759.80.

Deferred Compensation Plan:

The Village offers all Village employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of the Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balance and activities are not reflected in the Village's financial statements.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

## NOTE H - Retirement Plans (continued):

Employee Retirement and Benefit Systems:

The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance; disability retirement allowance, non-duty-connected death and post-retirement adjustments to plan members and their beneficiaries. All Village full-time employees are eligible to participate in the system. Employees who retire after age 60 with 10 years of credited service or after age 50 with 25 years of credited service are entitled to a retirement benefit, payable for life, equal to 2.50% of their 5-year final average compensation (FAC), with a maximum benefit of 80% of FAC. The Plan provides automatic 2.5% annual non-compounded benefit increases to persons (and their beneficiaries) retired on or after January 1, 2007. Vested employees may retire before age 60 and receive reduced retirement benefits. The system also provides disability benefits to a member who becomes totally and permanently disabled while employed by the Village and after acquiring 10 or more years of credited service. The service requirement is waived if the disability is from service connected causes. If a member or vested former member with 10 or more years of service dies in a non-duty related death before retirement, a monthly survivor allowance may be payable. The service is waived in a duty related death. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(A); mcla 46.12(a)), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Village employees and requires a contribution from employees of 2.00% of gross wages for general employees and 2.50% for police employees. The Village is required to contribute at an actuarially determined rate; the current rate is 0.00% of annual covered payroll for general employees and 18.23% for police employees.

During the fiscal year ended June 30, 2007, the Village's annual pension cost of \$122,592 was equal to the Village's required and actual contributions determined by an actuarial valuation of the plan as of December 31, 2004. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total actuarially determined contribution requirement is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years, less the accelerated funding credit.

The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 29 years.

Three Year Trend Information for GASB Statement No. 27:

<u>Fiscal Period Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2005	\$ 65,984	100%	0
June 30, 2006	94,485	100%	0
June 30, 2007	122,592	100%	0

Required Supplementary Information for GASB Statement No. 27:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as A Percentage of Covered Payroll (b-a)/(c)</u>
<u>December 31,</u>	<u>(a)</u>	<u>(b)</u>	<u>(b-a)</u>			
2004	\$ 2,081,672	\$ 2,587,881	\$ 506,209	80.4%	\$818,975	61.8%
2005	2,324,465	2,930,675	606,210	79.3%	737,448	82.2%
2006	2,586,243	3,712,575	1,126,332	69.7%	828,889	135.9%

VILLAGE OF FRANKLIN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2007

NOTE I - Post Retirement Health Care:

The Village provides hospitalization insurance coverage for employees (and their spouses) who retire under the Michigan Fraternal Order of Police union contract.

The coverage will be the same coverage the employee has at the time of retirement with the premium to be paid one hundred percent (100%) by the Village. Should the employee accept coverage from another source, the coverage will cease. However, if the alternate source ceases, the retiree will be reinstated under the Village coverage which will be paid for at the above rate.

Should the employee predecease his/her spouse, the surviving spouse will continue to receive the same benefits. This benefit will cease in the event that he/she remarries, gains employment with coverage or receives coverage from any other source.

All retirees and their spouses must make application for, and enroll in, Medicare coverage. The Village-paid health insurance will remain in effect until each of the retirees and/or their spouses reach the eligibility age of Medicare. The Village's obligation for health care coverage for the retiree and his/her spouse ends when the retiree and his/her spouse are eligible for Medicare.

The Village's cost of retiree health care benefits is recognized as an expense in the year hospitalization insurance coverage applies. Currently, zero retirees are eligible. No retiree health care costs were incurred by the Village for the year ended June 30, 2007.

During the year ended June 30, 2007, the Village established the Village of Franklin Retiree Health Care Plan (the "Plan") pursuant to Public Act 149 of 1999 and is administered by Municipal Employees' Retirement Systems (MERS). The purpose of the Plan is to hold and invest monies to be used for future payments of police employee retiree healthcare benefits. The Village does not report the Plan's assets within the basic financial statements. During the year ended June 30, 2007, the Village contributed \$44,200 to this Plan, expensed under Public Safety in the General Fund. As of June 30, 2007, the total holdings of the Plan were \$44,311.

Upcoming Reporting Change:

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any other postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2010.

The Village has already started an evaluation project on how it will react to this new requirement.

NOTE J - Risk Management:

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for health, dental and life claims. The City participates in the Michigan Municipal Risk Management Authority state pool for claims relating to property loss, torts, errors and omissions and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority state pool program operates as a common risk-sharing management program; state pool member premiums are aggregated and used to purchase excess insurance coverage, some of which is underwritten by the Authority.

NOTE K - Reserved Fund Balances:

Fund balances have been reserved for the following purposes:

	General Fund
Police equipment	\$ 31,335
Prepaid expenses	17,768
	<u>\$ 49,103</u>

REQUIRED SUPPLEMENTAL INFORMATION

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
Tax collections:				
Current levy - general . . . . .	\$ 840,200	\$ 840,200	\$ 838,221	\$ (1,979)
Property tax administration fee. . . . .	28,201	28,201	19,152	(9,049)
Interest and penalty on delinquent taxes . . . . .	9,885	9,885	1,732	(8,153)
	<u>\$ 878,286</u>	<u>\$ 878,286</u>	<u>\$ 859,105</u>	<u>\$ (19,181)</u>
Licenses and permits:				
Business licenses and permits. . . . .	750	750	700	(50)
Cable T.V. revenues. . . . .	50,000	50,000	74,995	24,995
	<u>\$ 50,750</u>	<u>\$ 50,750</u>	<u>\$ 75,695</u>	<u>\$ 24,945</u>
Federal sources:				
Community Development Block Grant. . . . .	9,000	9,000	8,056	(944)
Police grants. . . . .	1,000	1,000		(1,000)
	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 8,056</u>	<u>\$ (1,944)</u>
State sources:				
Sales tax. . . . .	185,000	185,000	208,141	23,141
Criminal justice training. . . . .	1,500	1,500	2,078	578
	<u>\$ 186,500</u>	<u>\$ 186,500</u>	<u>\$ 210,219</u>	<u>\$ 23,719</u>
Charges for services:				
Police protection services . . . . .	602,056	602,056	632,648	30,592
General and administrative assessment. . . . .	141,250	141,250	89,650	(51,600)
	<u>\$ 743,306</u>	<u>\$ 743,306</u>	<u>\$ 722,298</u>	<u>\$ (21,008)</u>
Police fines and forfeitures . . . . .	18,200	18,200	17,262	(938)
Interest on investments. . . . .	22,500	22,500	37,907	15,407
Other revenue:				
Reimbursements . . . . .	5,700	10,700	8,343	(2,357)
Sale of fixed assets . . . . .		9,500	11,010	1,510
Donations. . . . .	750	750	250	(500)
Miscellaneous. . . . .	4,100	9,000	11,405	2,405
	<u>\$ 10,550</u>	<u>\$ 29,950</u>	<u>\$ 31,008</u>	<u>\$ 1,058</u>
Total revenues . . . . .	<u>\$ 1,920,092</u>	<u>\$ 1,939,492</u>	<u>\$ 1,961,550</u>	<u>\$ 22,058</u>
Expenditures:				
General Government:				
Village Council:				
Village Council fees . . . . .	175	175	175	
Contracted services . . . . .	1,000	1,000	190	810
Cablecast Board. . . . .	30,000	30,000	46,872	(16,872)
Dues and meetings. . . . .	2,000	2,000	2,191	(191)
Historic Study Committee . . . . .	10,000	10,000	5,089	4,911
Public information . . . . .	4,500	4,500	5,733	(1,233)
Miscellaneous. . . . .	500	2,000	2,174	(174)
Wireless communications. . . . .			120	(120)
	<u>\$ 48,175</u>	<u>\$ 49,675</u>	<u>\$ 62,544</u>	<u>\$ (12,869)</u>

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Administrator:				
Salaries . . . . .	163,240	159,240	164,718	(5,478)
Contracted services . . . . .		14,400	14,755	(355)
Group insurance . . . . .	39,400	37,400	24,402	12,998
Life and disability insurance . . . . .	5,150	5,150	1,906	3,244
Workers compensation insurance . . . . .	2,100	500	352	148
Retirement contributions . . . . .	6,900	6,900	6,538	362
Payroll taxes . . . . .	13,132	13,132	12,698	434
Office supplies . . . . .	1,000	4,000	3,953	47
Computer software and supplies . . . . .		1,000	1,043	(43)
Accounting and auditing . . . . .	1,380	2,180	1,154	1,026
Telephone and communications . . . . .	1,000	2,000	1,705	295
Dues and meetings . . . . .			641	(641)
Auto expense . . . . .	6,600	3,600	5,214	(1,614)
	<u>\$ 239,902</u>	<u>\$ 249,502</u>	<u>\$ 239,079</u>	<u>\$ 10,423</u>
Elections . . . . .	2,500		21	(21)
Legal and related services . . . . .	35,000	35,000	43,110	(8,110)
Village Clerk:				
Salaries . . . . .	46,141	46,141	46,225	(84)
Contracted services . . . . .	12,600	12,600	5,173	7,427
Group insurance . . . . .	18,900	18,900	16,936	1,964
Life and disability insurance . . . . .	1,050	1,050	639	411
Workers compensation insurance . . . . .	520	520	135	385
Retirement contributions . . . . .	1,080	1,080		1,080
Payroll taxes . . . . .	3,150	3,150	3,534	(384)
Office supplies . . . . .	2,500	4,000	3,295	705
Computer software and supplies . . . . .	3,000	3,000	773	2,227
Training . . . . .	550	550	250	300
Accounting and auditing . . . . .	1,230	1,230	1,211	19
Dues and subscriptions . . . . .	250	250	214	36
Tax collection expense . . . . .	3,100	3,100	3,616	(516)
	<u>\$ 94,071</u>	<u>\$ 95,571</u>	<u>\$ 82,001</u>	<u>\$ 13,570</u>
Village Hall:				
Contracted services . . . . .	20,500	20,500	21,741	(1,241)
Telephone and communications . . . . .	8,500	8,500	9,119	(619)
Utilities . . . . .	5,600	6,600	7,684	(1,084)
Office supplies . . . . .			357	(357)
Repairs and maintenance . . . . .	5,000	7,000	5,718	1,282
	<u>\$ 39,600</u>	<u>\$ 42,600</u>	<u>\$ 44,619</u>	<u>\$ (2,019)</u>
Other general services administration activities:				
Insurance and bonds . . . . .	49,700	39,700	34,804	4,896
Community Development Block Grant . . . . .	9,000	9,000	9,950	(950)
Miscellaneous . . . . .	2,500	2,500	1,370	1,130
	<u>\$ 61,200</u>	<u>\$ 51,200</u>	<u>\$ 46,124</u>	<u>\$ 5,076</u>
Total general government . . . . .	<u>\$ 520,448</u>	<u>\$ 523,548</u>	<u>\$ 517,498</u>	<u>\$ 6,050</u>

## VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Public safety:				
Police department:				
Police salaries . . . . .	692,215	692,215	714,001	(21,786)
Clerical salaries . . . . .	28,119	28,119	29,463	(1,344)
Group insurance . . . . .	140,000	140,000	136,282	3,718
Life and disability insurance . . . . .	11,200	11,200	8,376	2,824
Workers compensation insurance . . . . .	11,000	11,000	11,008	(8)
Retirement contributions . . . . .	99,850	99,850	129,283	(29,433)
Post retirement health care . . . . .	44,200	44,200	44,200	
Payroll taxes . . . . .	54,150	54,150	56,671	(2,521)
Office and police supplies . . . . .	6,000	7,000	6,585	415
Computer software and supplies . . . . .	250	250	150	100
Dues and meetings . . . . .	2,500	2,500	968	1,532
Contributions . . . . .			490	(490)
Training expense . . . . .	4,500	7,500	6,216	1,284
Pistol range expense . . . . .	2,000	4,000	2,670	1,330
Uniform expense . . . . .	8,000	8,000	7,408	592
Accounting and auditing . . . . .	7,690	9,944	7,448	2,496
Legal and related . . . . .	4,000	4,000	5,425	(1,425)
Communication expense . . . . .	18,000	18,000	20,394	(2,394)
Central dispatch . . . . .	45,000	45,000	45,732	(732)
Insurance and bonds . . . . .	11,000	11,000	12,924	(1,924)
Police car expense . . . . .	62,500	53,500	54,587	(1,087)
Utilities . . . . .	12,850	12,850	13,615	(765)
Repairs and maintenance . . . . .	4,000	11,500	11,758	(258)
Total public safety . . . . .	\$ 1,269,024	\$ 1,275,778	\$ 1,325,654	\$ (49,876)
Community and economic development:				
Planning commission:				
Planning . . . . .	30,000	30,000	28,340	1,660
Legal and related . . . . .			529	(529)
Zoning board of appeals . . . . .	1,000	1,000	1,228	(228)
General engineering . . . . .	2,000	2,000	1,916	84
Total community and economic development . . . . .	\$ 33,000	\$ 33,000	\$ 32,013	\$ 987
Capital outlay:				
Administrator . . . . .		16,900	16,860	40
Police department . . . . .	28,500	28,500	26,191	2,309
Village hall . . . . .	25,000	17,500	17,439	61
Total capital outlay . . . . .	\$ 53,500	\$ 62,900	\$ 60,490	\$ 2,410
Total expenditures . . . . .	\$ 1,875,972	\$ 1,895,226	\$ 1,935,655	\$ (40,429)
Excess of revenues over (under) expenditures . . . . .	\$ 44,120	\$ 44,266	\$ 25,895	\$ (18,371)



VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND (CONTINUED)

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Other financing sources (uses):				
Operating transfers in . . . . .	4,000	4,000		(4,000)
Operating transfers out. . . . .			(66,000)	(66,000)
	<u>\$ 4,000</u>	<u>\$ 4,000</u>	<u>\$ (66,000)</u>	<u>\$ (70,000)</u>
Excess of revenues and other sources over (under) expenditures and other uses. . . . .	\$ 48,120	\$ 48,266	\$ (40,105)	\$ (88,371)
Fund balance - July 1, 2006. . . . .	<u>624,284</u>	<u>624,284</u>	<u>624,284</u>	
Fund balance - June 30, 2007 . . . . .	<u>\$ 672,404</u>	<u>\$ 672,550</u>	<u>\$ 584,179</u>	<u>\$ (88,371)</u>

## VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
MAJOR STREET FUND

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
Federal sources - grants . . . . .	\$	\$ 10,000	\$ 10,030	\$ 30
State shared revenues . . . . .	144,000	144,000	128,933	(15,067)
Interest . . . . .	9,500	15,000	18,256	3,256
Reimbursements . . . . .	2,500	2,500	421	(2,079)
Total revenues . . . . .	\$ 156,000	\$ 171,500	\$ 157,640	\$ (13,860)
Expenditures:				
Road maintenance and supplies . . . . .	105,450	117,250	79,458	37,792
Accounting and auditing . . . . .	2,000	2,000	1,057	943
Administration . . . . .	1,000	1,000		1,000
Total expenditures . . . . .	\$ 108,450	\$ 120,250	\$ 80,515	\$ 39,735
Excess of revenues over expenditures . . . . .	\$ 47,550	\$ 51,250	\$ 77,125	\$ 25,875
Other financing sources (uses):				
Transfer to Local Street Fund . . . . .	(35,200)	(35,200)	(32,233)	2,967
Total excess of revenues over expenditures and other financing uses . . . . .	\$ 12,350	\$ 16,050	\$ 44,892	\$ 28,842
Fund balance - July 1, 2006 . . . . .	379,232	379,232	379,232	
Fund balance - June 30, 2007 . . . . .	\$ 391,582	\$ 395,282	\$ 424,124	\$ 28,842

JANZ &amp; KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
LOCAL STREET FUND

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
Federal sources - grants . . . . .	\$	\$ 10,000	\$ 10,030	\$ 30
State sources:				
State shared revenues. . . . .	93,325	93,325	85,732	(7,593)
Metro Authority. . . . .	7,500	7,500	9,856	2,356
	\$ 100,825	\$ 100,825	\$ 95,588	\$ (5,237)
Interest . . . . .	9,500	16,000	19,087	3,087
Total revenues . . . . .	\$ 110,325	\$ 126,825	\$ 124,705	\$ (2,120)
Expenditures:				
Road maintenance and supplies. . . . .	85,000	104,000	79,135	24,865
Accounting and auditing. . . . .	1,500	1,500	1,057	443
Administration . . . . .	500	500		500
Total expenditures . . . . .	\$ 87,000	\$ 106,000	\$ 80,192	\$ 25,808
Excess of revenues over expenditures . . . . .	\$ 23,325	\$ 20,825	\$ 44,513	\$ 23,688
Other financing sources:				
Transfer from Major Street Fund. . . . .	35,200	35,200	32,233	(2,967)
Total excess of revenues and other financing sources over expenditures. . . . .	\$ 58,525	\$ 56,025	\$ 76,746	\$ 20,721
Fund balance - July 1, 2006. . . . .	415,483	415,483	415,483	
Fund balance - June 30, 2007 . . . . .	\$ 474,008	\$ 471,508	\$ 492,229	\$ 20,721

JANZ & KNIGHT, P.L.C. - CERTIFIED PUBLIC ACCOUNTANTS

VILLAGE OF FRANKLIN, MICHIGAN

BUDGETARY COMPARISON SCHEDULE  
BUILDING DEPARTMENT FUND

For the Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Favorable (Unfavorable)
Revenues:				
Licenses and permits . . . . .	\$ 410,450	\$ 383,450	\$ 264,022	\$ (119,428)
Miscellaneous . . . . .			823	823
Total revenues . . . . .	\$ 410,450	\$ 383,450	\$ 264,845	\$ (118,605)
Expenditures:				
Salaries . . . . .	41,350	34,750	34,835	(85)
Group insurance . . . . .	14,310	14,310	13,951	359
Life and disability insurance . . . . .	525	525	531	(6)
Workers compensation insurance . . . . .	4,400	2,000	1,570	430
Retirement contributions . . . . .	2,300			
Payroll taxes . . . . .	3,200	3,200	2,620	580
Administrative services . . . . .	120,000	120,000	74,400	45,600
Overhead . . . . .	12,000	12,000	15,250	(3,250)
Supplies . . . . .	750	4,000	2,606	1,394
Computer software and supplies . . . . .	3,500	3,500	2,048	1,452
Dues and meetings . . . . .	500	500	382	118
Accounting and auditing . . . . .	1,200	1,200	453	747
Legal and related . . . . .	10,000	4,000	1,173	2,827
Building inspection fees . . . . .	173,350	204,000	208,420	(4,420)
Training expense . . . . .	500	500		500
Insurance and bonds . . . . .	16,000	13,000	13,000	
Miscellaneous . . . . .	50	50	166	(116)
Total expenditures . . . . .	\$ 403,935	\$ 417,535	\$ 371,405	\$ 46,130
Excess of revenues over expenditures . . . . .	\$ 6,515	\$ (34,085)	\$ (106,560)	\$ (72,475)
Other financing sources:				
Operating transfer from General Fund . . . . .			66,000	66,000
Total excess of revenues and other financing sources over expenditures . . . . .	\$ 6,515	\$ (34,085)	\$ (40,560)	\$ (6,475)
Fund balance - July 1, 2006 . . . . .	40,664	40,664	40,664	
Fund balance - June 30, 2007 . . . . .	\$ 47,179	\$ 6,579	\$ 104	\$ (6,475)

OTHER SUPPLEMENTAL INFORMATION

## VILLAGE OF FRANKLIN, MICHIGAN

COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

June 30, 2007

	Garbage and Rubbish Collection	Fire	Library	Waste Water Management	Total
ASSETS					
Cash . . . . .	\$ 36,636	\$	\$	\$ 9,164	\$ 45,800
Due from other funds . . . . .	11,213	79,153	8,518	3,868	102,752
Accounts receivable - other . . . . .				935	935
Total assets . . . . .	<u>\$ 47,849</u>	<u>\$ 79,153</u>	<u>\$ 8,518</u>	<u>\$ 13,967</u>	<u>\$ 149,487</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable . . . . .	\$ 24,699	\$	\$	\$ 2,317	\$ 27,016
Due to other funds . . . . .				260	260
Due to other governments . . . . .		19,149	8,518		27,667
Total liabilities . . . . .	\$ 24,699	\$ 19,149	\$ 8,518	\$ 2,577	\$ 54,943
Fund balance - unreserved . . . . .	23,150	60,004		11,390	94,544
Total liabilities and fund balance . . . . .	<u>\$ 47,849</u>	<u>\$ 79,153</u>	<u>\$ 8,518</u>	<u>\$ 13,967</u>	<u>\$ 149,487</u>

VILLAGE OF FRANKLIN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2007

	Garbage and Rubbish Collection	Fire	Library	Waste Water Management	Total
Revenues:					
Taxes . . . . .	\$ 184,535	\$ 294,887	\$ 142,492	\$	\$ 621,914
Licenses and permits . . . . .				890	890
Interest earnings . . . . .	3,552	4,037	1,387	657	9,633
Other revenue . . . . .				35	35
Total revenues . . . . .	\$ 188,087	\$ 298,924	\$ 143,879	\$ 1,582	\$ 632,472
Expenditures:					
Public safety . . . . .		261,346			261,346
Public works:					
Sanitation . . . . .	194,762				194,762
Septic inspection . . . . .				14,814	14,814
Culture and recreation . . . . .			143,879		143,879
Total expenditures . . . . .	\$ 194,762	\$ 261,346	\$ 143,879	\$ 14,814	\$ 614,801
Excess of revenues over (under) expenditures	\$ (6,675)	\$ 37,578	\$	\$ (13,232)	\$ 17,671
Fund balance - July 1, 2006 . . . . .	29,825	22,426		24,622	76,873
Fund balance - June 30, 2007 . . . . .	\$ 23,150	\$ 60,004	\$	\$ 11,390	\$ 94,544

# **JANZ & KNIGHT, P.L.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**MICHIGAN ASSOCIATION OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**October 22, 2007**

**To the Village Council and Management of  
the Village of Franklin, Michigan**

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Franklin as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Village of Franklin's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency to be a significant deficiency in internal control.

The adoption of the Michigan Uniform Local Budgeting Act (Act No. 621, Public Acts of 1978), has made it mandatory that balanced budgets be adopted and that those budgets be amended before expenditures exceed the budgeted amounts. We noted that the budget was amended during the fiscal year in an attempt to comply with the budget requirements. As previously noted, despite the amendments, expenditures exceeded budgeted amounts in various activities. Listed below are the significant budget overruns:



<u>Fund</u>	<u>Activity</u>	<u>Amended Budget</u>	<u>Actual Expenditures</u>	<u>Budget Variance</u>
General	Village Council	\$ 49,675	\$ 62,544	\$ 12,869
General	Legal and related services	35,000	43,110	8,110
General	Public safety	1,275,778	1,325,654	49,876
General	Operating transfers out		66,000	66,000

Additionally, we offer the following general comment and recommendation:

Previous Comment:

It was noted during our audit that property taxes collected in the Tax Collection Fund were not remitted to the appropriate fund or government in a timely manner. These payments to the other funds or governments should be made as soon as reasonably possible or within agreed upon terms. However, this should be no later than the settlement time period with the County.

This communication is intended solely for the information and use of management, the Village Council, and others within the Village, and not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Janz & Knight, PLC*

Certified Public Accountants

J&K/srz